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FINLAND

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	
Income, Production and Employment:				
Nominal GDP (at factor cost) 9/	105.6	111.8	110.2	1/
Real GDP Growth (pct)	5.6	5.6	3.8	1/
GDP by Sector:				
Agriculture, Forestry & Logging	4.4	4.2	4.2	1/
Manufacturing, Construction, Mining & Quarrying	32.1	35.2	35.2	1/
Electricity, Gas & Water Supply	2.6	2.6	2.4	1/
Services	69.3	72.8	71.7	1/
Imputed Bank Service Charges	-2.8	-3.0	-3.3	1/
Per Capita GDP (US$) 9/	23,671	25,084	24,734	1/
Labor Force (000s)	2,484	2,507	2,548	1/
Unemployment Rate (pct)	12.7	11.4	10.3	1/
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	1.0	4.4	5.7	2/
Consumer Price Inflation	1.2	1.4	1.0	1/
Exchange Rate (FIM/US$ annual average)	5.19	5.30	5.6	
Balance of Payments and Trade:				
Total Exports FOB	40.7	43.3	25.7	3/
Exports to U.S.	2.8	3.2	1.7	3/
Total Imports CIF	30.7	32.5	19.8	3/
Imports from U.S.	2.3	2.7	1.6	3/
Trade Balance	10.0	10.8	5.9	3/
Balance with U.S.	0.5	0.5	0.1	3/
External Public Debt 4/	-29.8	-21.3	-25.8	5/
Fiscal Deficit-Surplus/GDP (pct) 6/	-1.2	0.9	3.1	1/
Current Account Surplus/GDP (pct)	5.6	5.9	4.9	1/
Debt Service Payments/GDP (pct) 7/	5.4	4.9	4.6	1/

Gold and Foreign Exchange Reserves	9.9	9.7	9.2	8/
Aid from U.S.	N/A	N/A	N/A	
Aid from All Other Sources	N/A	N/A	N/A	

1/ Estimate, Ministry of Finance.
2/ Bank of Finland, April 1999-April 1998
3/ January-August 1999, Board of Customs.
4/ Net international investment position exc. shares and other equity items
5/ Bank of Finland, August 1999
6/ Public sector's budget deficit (EMU).
7/ General government interest expenditures.
8/ September 1999, Bank of Finland.
9/ Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Markka.

1. General Policy Framework

At the beginning of the 1990's, the Finnish economy encountered a severe recession, after a period of rapid growth in the 1980's. GDP growth came to a standstill in 1990 and the following year declined by 7 percent. Industrial output and exports bottomed out in 1991, and total industrial output did not start to grow again until 1993. Unemployment has decreased significantly since 1994, but remains above the European Union (EU) average. EU membership, which took place on January 1, 1995, helped spur structural change in key economic sectors.

The overall economic outlook in Finland is favorable. Inflation has been moderate, and employment has grown robustly. In 1999, the volume of total output is anticipated to grow by 3.8 percent year-on-year. In 1998 GDP growth amounted to 5.6 percent, the same as in 1997. Unemployment rate estimated to drop to 10.3 percent from 1998's 11.4 percent. The national government's budget is expected to be balanced this year, and the surplus in overall government finances (including revenues from state owned corporations) will grow to 3 percent of GDP

The current account surplus reached 40.3 billion FIM in 1998, which is 5.9 percent of GDP. In 1999 the surplus is expected to contract to 34.9 billion FIM, but should rise again in year 2000. As a percentage of GDP the current account surplus is forecast to fall from last year's record level but remain in the range of 5 percent both in 1999 and 2000.
The current account surplus has been export driven during the 1990s. But in 1999, the surplus is expected to dip slightly as the terms of trade deteriorate by 3 percent. In 2000, the terms of trade are projected to fall by another one percent, but accelerated growth in the volume of exports will bring the trade surplus back on a growth track.

Private consumption was up 4.5 percent in 1998 and is forecasted to grow by 3.8 percent in 1999, 3.4 percent in 2000, and 3.2 percent in 2001. Consumer confidence remains high overall.

Finland's net foreign debt was FIM 476.5 billion at the end of 1998. Owing to a rise in share prices and an increase in foreign owned equity, net debt excluding shares and other equity items (the interest bearing net debt) declined in the course of 1998 and stood at 142.3 billion (20.7 percent of GDP) at the end of 1998.

With central government finances on the mend, general government finances have also considerably improved; local government finances are close to balance. The surplus in overall public finances is forecast to reach about 3 percent of GDP in 1999. With the net asset position improving and domestic product growing, the overall government debt ratio (ratio of EMU debt to GDP) is predicted to fall from 49.7 percent in 1998 to 46.6 percent by the end of 1999.

In 1998 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was down to 46.2 percent from 46.3 percent in 1997. A marginal rise is expected in 1999 (46.7 percent) and in 2000 (46.8 percent).

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that could help to reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The increase in stock market activity is also due to lower domestic interest rates. Direct foreign investment, however remains modest due to high production costs. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the former Soviet Union and the Baltic States. This effort had scored some successes as foreign firms established production and warehousing facilities in eastern Finland, close to the major Russian markets. The recent Russian financial crisis has caused a significant slowdown in gateway activity.

EU membership and Finland's budget constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The compromise outcome of Agenda 2000 negotiated by the European Ministers of Agriculture in March 1999, contained some favorable elements with respect to Finland. Of special importance was drying aid for grains and oilseeds, and aid for grass silage. The delay of the price cut of milk reform until 2003, makes the situation easier now, although there might be problems later on if the compensation does not cover losses caused by the price cuts.

2. Exchange Rate Policy

From June 1991 to September 1992 the Finnmark was pegged to the European Currency Unit, the ECU. The fluctuation margins and the midpoint were set so as to correspond to the fluctuation margins and midpoint of the old currency index. In September 1992, the Bank of Finland decided to abandon the limits of the fluctuation range and allow the Finnmark to float. Finland joined the Exchange Rate Mechanism (ERM) of the European Monetary System in October 1996, at the central rate of 1 ECU = FIM 5.80661. As a participant in the ERM, Finland takes part in the mutual intervention arrangements coordinated between the various central banks, which contribute to economic policy goals by stabilizing the exchange rate.

The European Commission reported on 25 March 1998, that 11 EU member countries, one of them Finland, were ready for the economic and monetary union (EMU) and met the conditions to adopt the single currency (Euro).
The bank notes and coins of the single currency will be put into circulation in 2002. As of January 1, 1999, Finland joined the third stage of the EMU. This third and final stage of EMU commenced with the irrevocable locking of the exchange rates of the eleven currencies

participating in the Euro area and with the conduct of a single monetary policy under the responsibility of the ECB. The Finnmark was pegged to the Euro at 5.9457.

3. Structural Policies

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs will still be taxed at a 17 percent rate. Services, including health care, education, insurance, newspaper & periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, where the tax rate was increased from 20 to 25 percent at the beginning of 1994. The Government's budget proposal for 2000 includes raising the corporate and capital income tax rate from current 28 per cent to 29 per cent.

In March 1997, European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

The current Comprehensive Incomes Policy Agreement expires at the end of January 2000. A new round of wage negotiations is being carried out. Unlike in the past, the new wage negotiations are been carried out on a union by union basis as opposed to collective bargaining with all unions together. There won't be any collective bargaining agreements, but instead agreements on union levels. All main labor market organizations are committed to the target of low inflation, and the government intends to reward a moderate collective wage agreement with tax cuts.

The sharp decline in interest rates and liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland's leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center-Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing, energy production and telecommunications -operations. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors and to treat each company as an individual case. In its program the government is committed to using privatization proceeds primarily to reduce government debt and to research and development activities.

Recent examples include Sonera (former Telecom Finland) and HPY (Helsinki Telephone Company) and the selling of Enso to Stora. In virtually every case, however, the Finnish government has retained significant minority stakes in privatized companies.

As a result of the recession of the early 1990s, industrial subsidies have increased by about 80 percent of GDP in real terms. The government has begun, however, to reduce subsidies in line with the need for greater fiscal discipline and Maastricht Treaty criteria for monetary union. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

4. Debt Management Policies

Under the government's EMU convergence program, the gross government debt is projected to drop from 49.7 percent last year to 43.2 percent of GDP by the end of 1999. Finnish corporations, formerly heavy users of foreign capital, are now reducing foreign obligations.

In August 1999, Moody's announced that it keeps its rating on Finnish long-term government bonds at their best rating -- AAA. Standard & Poor's rating was upgraded in September 1999 to AA+, which is the second best. In November 1999, Fitch IBCA confirmed the rating of Finnish long-term government bonds to AAA.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.32 percent of GDP in 1998. The Finnish Government intends to raise foreign assistance to 0.4 percent of GDP by year 2000.

5. Significant Barriers to U.S. Exports

Finland became a member of the EU in 1995, and, as a result, has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier, by eliminating a licensing requirement to construct a fixed telephone network. Only mobile telephone networks are still subject to license.

Finland was the first country to grant licenses for third generation mobile phone networks. In March 1999, four telecommunications companies were granted a license to construct a 3G mobile network in Finland. The decision did not include a final position on the technology to be used, since the ITU's international standardization decision (IMT-2000) had not yet been taken. The 3G mobile operations will be launched by January 1, 2002 at the latest.

In the next few years, the telecommunications and information technology sectors will continue to grow rapidly. Finland's telecommunications environment is one of the most advanced in Europe and the growth of international business in telecommunications is of significant importance to the Finnish economy.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remain, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this will be abolished by January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as a private entrepreneur or as a partner in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor market test be conducted before allowing a foreigner to work in Finland. The purpose of the test is to determine whether or not a Finn could undertake the same work. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at \$3.35 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of December 1998, \$2.9 billion (or 88 per cent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policies

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products. Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. The EU has decided that payment of shipyard subsidies will end at the end of year 2000.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the U.S., and by some measures (e.g. BSA) is the lowest in the world.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. The Copyright Act has covered computer software since 1991.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped to 32 percent in 1998, from 53 percent in 1994.

8. Worker Rights

a. The Right of Association: The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. Over 80 percent of the work force are organized. This applies to employers as well. All unions are independent of the government and political parties. The law grants public sector employees the right to strike, with some exceptions for provision of essential services. In the first half of 1999, there were 28 strikes, of which only one, was not a wildcat strike. Trade unions freely affiliate with international bodies.

b. The Right to Organize and Bargain Collectively: The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor: The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice.

d. Minimum Age for Employment of Children: Youths under 16 years of age cannot work more than 6 hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force. In 1998, a proposal to tighten the law even further has been made. According to a bill introduced to parliament, comprehensive school student (7-15 years) should not be allowed to hold employment during two thirds of the their holidays, but only during one half. This change is prompted by an EU directive to this effect.

e. Acceptable Conditions of Work: There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector. These minimum wages generally provide a decent standard of living for workers and their families. The legal workweek consists of 5 days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations, without risk of penalty.

f. Rights in Sectors with U.S. Investment: There is no difference in the application of worker rights between sectors with U.S. investment and those without.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		104
Total Manufacturing		1,004
Food & Kindred Products	11	
Chemicals & Allied Products	308	
Primary & Fabricated Metals	14	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	48	
Wholesale Trade		302
Banking		20
Finance/Insurance/Real Estate		(1)
Services		67
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,700

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.